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SUBJECT: Opposition PASOK Wins Greek Parliamentary Elections

REF: ATHENS 1513

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Athens; REASON: 1.4(B), (D)

¶1. (C) SUMMARY: In an unexpectedly strong victory in Greece's October 4 Parliamentary elections, George Papandreou's Pan Hellenic Socialist Union (PASOK) opposition party defeated incumbent Costas Karamanlis' New Democracy Party by a spread of more than ten percentage points.

-- Winning 44 percent of the vote and an expected 160 seats in the 300 seat parliament, PASOK swept into power in its best showing since 1981 on a wave of voter dissatisfaction with the poor performance and corruption scandals of the outgoing government.

-- Economic issues were dominant with Papandreou promising a \$4.5 billion economic stimulus package, protection for workers, a more progressive tax burden, and an emphasis on green development.

-- New Democracy was hampered by widespread disappointment in its ability to institute fundamental reforms, tackle corruption, and deal with the economic crisis.

-- Foreign policy played little role in the elections, although Papandreou has emphasized improving bilateral relations with Turkey and the importance of EU accession, without lowering the standards for admission. He was criticized on occasion for his strong ties to America, having been born and educated in the U.S., and for calling into question the Russian sponsored Burgas-Alexandroupolis pipeline.

-- Papandreou intends to move quickly in forming a cabinet this week.

-- While his promises of economic stimulus played well in the election, he will face a tougher audience in Brussels where Greece is scheduled to present its economic strategy in late-October. Greece's high debt, expected to be more than 103 percent of GDP in 2009, and deficit projected in the 8-10 percent range, has made it one of the more vulnerable economies in the EU.

-- We expect that Papandreou will be an engaging partner with the U.S., given his past experience as a foreign minister, and his interest in global political issues. However, he will be restrained by public attitudes and domestic politics in making any dramatic moves to alter Greece's relations with Turkey and the Republic of Macedonia. END SUMMARY

Time for Change

¶2. (U) In a surprisingly strong finish, the Pan Hellenic Socialist Union (PASOK) opposition party of George Papandreou

resoundingly defeated incumbent New Democracy Party of Costantinos Karamanlis in Greece's October 4 parliamentary elections. Picking up nearly 44 percent of the vote and a comfortable majority of 160 seats in the 300 seat parliament, PASOK was swept into power in its best showing since 1981, on a wave of voter dissatisfaction with the poor performance and corruption scandals of the outgoing government.

¶3. (U) Running a campaign that many characterized as being "in Obama's style," Papandreu focused on the middle, avoiding the polarizing accusations and economic "tough-love" messages of Karamanlis - who announced his resignation as ND party president late Sunday night. Second rank parties such as the Greek Communist Party (KKE) and Syriza on the left did relatively poorly, while the far right LAOS party enjoyed modest gains, largely on the back of dissatisfied ND voters. The "Eco-Greens" who fared well in European Parliament elections in June, polled a respectable 2.56 percent, but did not cross the 3 percent threshold to enter parliament.

¶4. (U) Papandreu is expected to name his cabinet as early as today, Monday October 5, with the swearing in to be as early as this Wednesday. Greek media report that the new government will consist of both new and familiar faces; of sixteen cabinet members as many as nine could be women, and five are expected to have served in the previous PASOK government of Constantinos Simitis. The pro forma necessary vote of confidence by parliament on the new government's programmatic plans should take place within a week following the swearing in of the government.

PASOK Economic Plan: Optimistic, but a Tough Sell in Brussels

¶5. (U) Papandreu has promised economic relief for Greeks, focusing on reinvigorated state efforts to redistribute the tax burden, fight high prices, support small- and medium-sized businesses, create jobs, and promote investment, especially of the "green" sort. Papandreu within the first 100 days reportedly plans to pass five bills to revive the economy with an approximately \$4.5 billion stimulus package. Skepticism abounds, however, regarding PASOK's ability to achieve its ambitious economic electoral platform; moreover, Brussels will likely dictate some of the way forward.

¶6. (U) Among Papandreu's top economic priorities are drafting a budget for FY 2010 by November, preparing a plan for the EU explaining how he will rein-in public spending and get Greece's fiscal house in order, and providing data to the European Statistical Service for its end-of-year report (Note: with implications for EU oversight of Greece under the excessive deficit procedure for Eurozone countries). PASOK insiders have told us previously that their early priority will be to seek an extension of the EU deadline for bringing the deficit back under three percent (ref). Greece's high debt, which is expected to be more than 103 percent of GDP in 2009, makes the fiscal imbalances more unstable and Brussels less tolerant. The markets will be watching to see if Papandreu picks one of the younger technocrat economists as finance minister, signaling a more pragmatic approach to the economy.

Foreign Policy - Continuity, With A More Positive Atmosphere

¶7. (C/NF) On Foreign policy, as reported reftel, we expect the broad outlines of Greek foreign policy not to change. Papandreu

has signaled, however, that he wishes to turn the page in relations with Greece's neighbors, and will work hard - personally - to make that happen. Always nostalgic of his own days as Foreign Minister in the Simitis government (1999-2004), Papandreu has told us he will work to create a more positive atmosphere in Greece's bilateral relations in the region. On Turkey, we expect him to maintain the GoG's firm support for Ankara's EU accession, while insisting that Turkey meet the full EU aquis. We will encourage the new GoG to take early steps and offer some confidence building measures of its own to improve the atmosphere in the Aegean as a first step.

¶18. (C/NF) Papandreu has also signaled to us that he is ready to work with us to support the Obama Administration tackle the challenges facing our generation. He has told us, and many visiting USG officials that he plans to use his "good relations," stemming largely from his previous work as FM and current presidency of the Socialist International, with leaders in Pakistan, Egypt and elsewhere in the Middle East, and Africa.

¶19. (C/NF) With regard to the Republic of Macedonia (RoM), Papandreu's staff have told us they want to change the corrosive dynamic which has characterized recent Greece-RoM relations. While it is unlikely that the new GoG will be able to lean so far forward as to refrain from blocking the start of RoM's EU accession during the December European Council meeting, they will seek in other ways to diffuse the effect of that move, by reinvigorating Greece's support for the EU accession prospects of the Western Balkans more broadly, and putting the "name issue" into a broader, and thus less toxic, context.

¶10. (C/NF) We do not expect the new GoG to take an active role in the Cyprus reunification discussions, however, as a fellow socialist and chairman of the Socialist International, Papandreu himself may have a better personal relationship with Christoufias. Many political analysts have commented that during the short campaign, Papandreu made a trip to Cyprus as an indication that he will give more importance to this issue than the departing government. We may be able to capitalize on this in the end stage to help get a positive message out of both Athens and Nicosia on the costs/benefits of the eventual deal.

¶11. (C) On Afghanistan, we have no indications that the new GoG will backtrack on its predecessor's level of commitment. We believe the new government will not revisit lifting of caveats that had restricted the Greek engineering battalion in Kabul, though equipment shortfalls are threatening the battalion's planned deployment to Herat. On development assistance for Afghanistan and Pakistan, we have heard that the new government will look into additional funds - subject to addressing its dire fiscal situation.

¶12. (C) On the other hand, the new government wants to take a more holistic approach to the migration crisis confronting Greece, and we expect it to respond positively to arguments linking the stabilization of conflict zones (including Afghanistan and Pakistan) with easing its own migration challenges. Many of our contacts in the NGO community here believe that a PASOK government will provide NGOs more funding and focus more on human rights and social issues, such as supporting victims of human trafficking, integrating migrants into Greek society, Roma education, increased freedoms for minority religious groups, and reforms to Greece's much-criticized asylum process.

¶13. (C) We expect the new government to continue its predecessor's pattern of good, but quiet, counterterrorism

cooperation with us. The December 2008 riots and the resurgence in domestic terrorism contributed to a greater public sense of insecurity, which played a large part in the loss of confidence in ND. PASOK - which was in power when members of the November 17 terrorist organization were arrested in 2002 - knows that security will be one of the criteria on which voters will judge its performance in power.

COMMENT on Political Landscape:

¶14. (C) Comment: With the pickup of a large number of undecided voters in the middle of the spectrum and the relatively large percentage of ND voters who did not bother to show up at the polls or who drifted to far-right LAOS, Papandreu won the battle for the middle. By maintaining a moderate tone throughout the campaign, Papandreu managed to avoid falling into the trap of ND attempts to polarize the debate and rally its party base. Winning approximately 45 percent of first time voters -- in echoes of the Obama campaign, as reported in some media here -- bodes well for PASOK's immediate electoral future, although Papandreu will have to make good on his campaign promises to maintain their support. In his acceptance speech Papandreu asked not for voters' tolerance but for their participation. END COMMENT.

Speckhard